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CITY OF SAN DIEGO

“Building for the Future Despite the Economic Downturn”

September 15, 2009

Good afternoon.

Thank you for inviting me here today to personally update you on our progress in protecting taxpayers and bringing efficiency and reform to City Hall.

I hope all of you were able to relax this summer, because the coming year will be a busy one.

I know these are tough times. We're all trying to spend less money, use less water, and put something aside for the future. I feel for our City and what its families are going through.

Just last week I had the privilege to lobby on our behalf in Washington, D.C., where they can solve all of their budget problems by simply printing more money.

We're working hard to get some of that money for jobs and economic development in San Diego.

And I've been defending our City in Sacramento, where their answer to budget problems is to steal our money -- and expect us to be grateful they didn't steal more.

We've been working hard to keep that money right here in San Diego.

I also spent a few days in El Paso working on border security issues.

Now, I'm not going to say anything bad about El Paso in August.

In fact, it made me appreciate San Diego all the more.

No matter what problems we have, you have to feel good about living and working in a city as dynamic as ours.

Among the many good qualities that set San Diego apart from other cities are the important reforms under way in government.

I spoke to this audience last year, and I remember your enthusiasm for our steady progress in making City operations more efficient and responsive to our citizens.

It's good to know there are people who understand the importance of constantly re-examining what we do, and how we do it.

Most people never give reform a second thought – that is, until there's a crisis.

Then, suddenly, a light bulb goes on.

Well, in the 12 months since the stock market nose-dived, every city and county in America has been hit by the double whammy of plummeting revenues and skyrocketing pension costs due to investment losses.

So light bulbs are going on across the country.

And as they go on, publications like The New York Times and Governing magazine have reported that San Diego was already a bright spot.

Not that long ago, the media made us the national model for how to get into trouble.

And in just four years, we became a model for how to turn things around.

The secret to our success is simple:

We don't run from hard work, or from tough decisions.

That's how you get into a mess -- not how you get out of one.

Our financial reforms changed the culture of some departments, but they've restored our good standing on Wall Street, and won back the respect of the investment community.

Our streamlining programs were opposed by some who feared change, or prospered under the old ways, but they've delivered a smarter and more efficient workforce.

And there's still much more to be done.

This fall, we will bring to the City Council more of the reforms known as Business Process Reengineering, which have already saved the city tens of millions of dollars.

I expect full Council support for this new round of cost-saving efficiencies, and those that follow.

We cannot accept a City that is only part-efficient any more than we would accept a City that is part-honest.

So this important work must continue.

Because we've been so successful in reducing operations, and because we chose pay cuts over service reductions, the public has largely been insulated from the magnitude of the challenges we've already overcome.

Record of budget cuts

Look what we've accomplished in just the past year:

To balance our Fiscal Year 2009 budget, we needed to close a \$49 million gap.

That's about 5 percent of our General Fund, the money available each year for such services as libraries, parks, trash collection, police and fire protection.

Plugging that \$49 million hole wasn't easy, but we did it.

And even then, it wasn't enough.

The stock market tanked a few months later, dragging our tax revenues down with it.

So we re-opened the budget midyear to close another gap in the General Fund -- this time \$43 million.

Once again, it wasn't easy.

The deeper you cut, the tougher the decisions are.

But we did it.

And still it wasn't enough.

As we put together our Fiscal Year 2010 budget, we had to close yet another gap in our General Fund -- this time \$83 million.

For those of you who didn't bring calculators, that's \$175 million in 12 month's time.

And yet, after making the tough decisions to protect neighborhood services and popular programs, our reward is further declines in revenues and the largest pension bill in City history.

I feel like the guy who wins a pie-eating contest, only to learn that First Prize is more pie.

(pause)

But we won't run from the hard work.

The City is no different than your family, or any family in these difficult times that has to weigh priorities and make tough decisions.

So in my office, we talk every day about where we can save money, while doing all we can to protect services and the quality of life people care about.

Pension payment

Once again, meeting the challenges ahead will not be easy.

As I mentioned, when the annual required contribution to the city's pension system comes due in July 2011, it will be the largest pension payment in city history.

There has been considerable speculation about what the size of that payment will be, but whatever the amount, let me be clear:

We will make our full pension payment, to the penny.

The Mayor and City Council do not determine the amount of the payment, nor should we.

Nor should we repeat the mistakes of our predecessors and shortchange the retirement system so we can avoid making tough decisions.

Instead, we must find ways to reduce our costs so the City can provide core services without putting taxpayers at risk or imperiling the reforms that have restored the stability and credibility of San Diego.

We've done it before. Let no one say we can't do it again.

Let's talk about some of the things going on at City Hall right now.

Pension reform

On July 1, without any fanfare, a new pension plan went into effect at the City that will produce hefty savings over the long haul.

This plan reduces the taxpayers' pension contribution by almost half – from 15.9 percent of pay to 8.75 percent -- for all new employees, except sworn public-safety officers.

It discourages early retirements and significantly lowers the multipliers used to calculate retirement pay.

Most importantly, it includes a defined-contribution component in which the employee -- not the taxpayer -- will bear the risks and rewards of the stock market's performance.

By shifting to this two-tier plan we will save about half a million dollars this year alone.

And as new employees replace existing ones, those savings will grow -- to about \$22.5 million annually.

Still other cost savings are in the works.

Data processing

Last week, we announced plans to invite private firms to bid on information technology services now performed for the city by the San Diego Data Processing Corporation.

DPC is a nonprofit that the City Council created in 1979 to provide services to the city that unionized workers could not.

Today, the City provides DPC with over 90 percent of its business, at a cost of \$45 million a year.

That's \$10 million more than we spend on trash collection.

Over the years, DPC has had its critics and its defenders.

What it has never had is honest competition.

Instead it had a virtual monopoly on City business.

Not anymore.

We will solicit bids on each of the services that DPC performs, and hope to shave millions of dollars off of our information-technology costs.

It may be that we've been getting a great deal all along, but the only way to know for sure is through the competition of the marketplace.

Managed competition

If I had my way, many of our City services would have the same opportunity to compete with the private sector.

And I'm not alone in that respect -- certainly not in this crowd.

Three years ago, San Diegans had the opportunity to vote on a ballot measure designed to bring managed competition to City services.

The question we asked was fairly simple: Should the City be allowed to contract out services performed by City employees when it is cheaper and more efficient?

The response from voters was overwhelmingly: “Yes.”

But, as you know, the will of the people is held in higher regard by some groups than by others.

And so the development and implementation of a managed competition program has faced tremendous obstacles and setbacks.

But my administration has made, and continues to make, implementation of managed competition a top priority.

The City continues to negotiate with labor organizations on an implementation guide, and we hope to soon secure Council approval to begin a free-market competition through open bidding.

And we expect our departments, by paring costs to private-sector levels, can win most, if not all of these competitions.

Vendors

Speaking of the private sector, another area where we are looking for cost savings is from the vendors that provide commodities and services to the City.

My administration has begun a systematic review of all contracts with its outside vendors, which account for more City spending than any budget category besides payroll.

Our goal is significant reductions in those City costs in time to relieve pressure on the General Fund for the Fiscal Year 2011 budget.

Our objective is to partner with our vendors on mutually beneficial ways to reduce our costs through the renegotiation of their contracts.

I look at it this way: Our employees took a 6 percent pay cut to help us balance the budget this year.

If our vendors were also willing to reduce their charges, we could save millions just on commodities and services.

We look forward to sitting down with our vendors for some frank discussions about how we can strengthen our business relationships in a weak economy.

OneSD

Another reform that doesn't get much attention is OneSD, which is transforming the way we do business by completely modernizing our information systems and strengthening our internal controls.

By the end of the year, we will have effectively replaced dozens of antiquated business applications, most of which couldn't talk to each other, with a single integrated system that incorporates the data of our core financial, human resources, payroll and procurement functions.

When I first took office, no one could tell me how many employees the City had, or how many properties it owned.

Our departments operated in silos, controlling who could access their budgets, or check the veracity of their information.

OneSD represents a quantum leap forward in our ability to identify inefficiencies, integrate our internal controls and pull data to help decision-making.

But state-of-the-art infrastructure like this doesn't come cheap.

OneSD required a significant investment by the city – an investment in accountability and efficiency that will realize returns for years to come.

Qualcomm site

We're also looking for ways to realize greater returns from our Qualcomm Stadium property, an underperforming asset that costs taxpayers over \$12 million a year.

With a fair deal to the City, we can allow San Diego State University to expand its campus there, and build world-class research facilities just a short trolley ride from its main campus.

Such an arrangement would help us with our ongoing budget problems and help San Diego State fulfill its important education mission.

And by realizing this dynamic property's economic potential, we could have the resources to restore the site's fragile environment while providing a riverfront park that will enhance the quality of life in Mission Valley.

These are the types of creative solutions that can be found during times of crisis, but only if we rise to the occasion, rather than shrink from it.

Next year's deficit is expected to dwarf all of its predecessors, and if we are to protect our service levels we need ideas from every corner of the City -- from our employees, from our residents, from civic leaders like those in this room and from the citizen's commission on competitiveness created by the Council and its president, Ben Hueso.

That commission will be led by Councilman Tony Young, the chairman of the budget committee, and work with the Office of the Independent Budget Analyst to develop new, innovative ideas.

Capital projects

As we look for ways to protect our General Fund and the city services it provides, we cannot allow our judgment to be clouded by the defeatists who think the only response to a weak economy is to abandon our aspirations.

I'm fully aware that, in times of economic upheaval, some people want government to stop in its tracks.

They think progress was all right for previous generations, but it's taken us about as far as it can.

This kind of thinking is nothing new in San Diego.

Virtually every major project in the city has encountered opposition from groups who have no faith in tomorrow, who view all progress with suspicion, who don't believe we deserve to be a great city.

If these people had their way, we'd still be riding ferries to Coronado.

There wouldn't be a Mission Bay, or a trolley system, or a vibrant downtown with homes, shops and restaurants.

We might not even have clean water piped into our homes.

Because 120 years ago, after San Diegans voted in record numbers to create a water distribution system, a clever lawyer filed a brief to overturn the election.

He was troubled that so many people had voted pro-water.

He figured any election that lopsided had to be rigged.

So apparently, no idea is so good that it can't attract an impassioned opposition.

But time and again, San Diegans have looked past the heated rhetoric and based their opinions on cold, hard fact.

That's the standard we will apply to the projects on our civic agenda, each of which must be viewed as a business decision, and a strategic investment in the future of our city.

During this time of economic hardship, I would never ask residents to choose between funding basic services and investing in discretionary capital projects.

Each of the following initiatives will be funded by revenues generated by the projects. Put another way, the money we invest in the projects would not exist but for the projects themselves.

The list should be familiar to most of you:

- a third-phase expansion of the San Diego Convention Center, which over two decades has proved to be one of the smartest investments this city ever made,
- the replacement of City Hall, which is a ticking time bomb of foreseeable expenses and potentially massive liabilities,
- and the replacement of our Central Library, which the City outgrew during the Ford Administration.

Each of these projects is moving forward in a deliberate and thoughtful way, and gaining support at every stage, not just because they mean jobs for San Diegans, but because they make sense for San Diego.

My own support has always come with this condition: That they do not require any money from our General Fund, or any fund designed to provide neighborhood services.

Central Library

In the case of the new Central Library, the funds for construction would come from sources that could not be used for daily operations, or for any other library project or branch improvements.

Let me repeat that: The funds for its construction would come from sources that could not be used for any other library project or, for that matter, any other City service.

In fact, if this project isn't built, most of the funds would be lost.

Those include a state grant, a contribution from the San Diego Unified School District, and private contributions designated specifically for this project.

The rest of the funding is redevelopment money that can only be spent on projects downtown.

As long as the library comes in at a price those sources can cover, and we have private commitments for ongoing operations, there is no budget-driven reason to say no to this long-overdue improvement to our thriving residential community downtown.

Even opponents of the project are grudgingly admitting this reality.

I've noticed their arguments have shifted lately from finance to architecture, and the merits of the new library's latticework dome.

When a discussion reaches that stage, I'm ready to move on to new challenges.

In the case of the proposed Civic Center and expanded Convention Center, we can anticipate that both projects will have a positive impact on our General Fund.

Again, let me repeat myself: These projects will be designed to enhance our General Fund's ability to pay for public safety services and park and library programs – the services most likely to be compromised in an economic downturn.

If they didn't, we wouldn't be interested.

Civic Center

In the case of the proposed Civic Center, the project has to save us money.

It can relieve the City of millions of dollars that otherwise would be wasted on leased office space and senseless short-term improvements.

Of course, we can't save on those hard costs without incurring political costs.

No discussion of a city building would be complete without a few obligatory comparisons to the Taj Mahal.

For years, that kind of rhetoric has been enough to stifle any thoughtful conversation about replacing City Hall.

That's because most public officials, when asked to make a difficult decision, figure out that doing nothing can be the easiest decision of all.

But doing nothing has consequences.

And in the case of the proposed Civic Center, an independent analysis of this "do-nothing" scenario actually made the decision to go forward easier.

Last spring, a respected real estate finance consultant analyzed the costs of doing nothing, and determined that the City would have to spend \$40 million just to keep the current City Hall functioning for another 10 years.

That's taking \$40 million out of taxpayer pockets and putting it into a building which, on its best day, is an asbestos-lined money pit that doesn't meet fire or earthquake codes.

That decision would put every other Golden Fleece Award to shame.

Soon we'll be negotiating with a private partner that shares our vision, and must agree to deliver the promised savings.

Because if it isn't a winner for the city's finances, it's not an investment we will make.

Convention Center

The same is true of the Convention Center expansion.

That decision has been broken down into two questions.

The first was: "If we could expand the Convention Center, should we?"

The virtually unanimous answer was: Of course we should. It makes sound economic sense.

Our Convention Center has been the cornerstone of our tourism sector for two decades, generating \$18 billion in economic activity and returning to the City more than two dollars for every dollar invested in it last year.

Expansion is a necessary step if we are to continue attracting the top-tier events that make San Diego one of the premier convention destinations in America.

Now we're at the second question, which is a bit harder: "If we do expand, who will pay for it?"

Whenever we ask that question, no one raises a hand.

Certainly the city can't bankroll construction, so we are asking those who benefit most directly from an expanded center – such as restaurants, hotels, car rental agencies and tourist attractions – to voluntarily assess themselves an equitable portion of the construction costs.

If no one steps up, the opportunity may be lost.

But anyone who mistakenly thinks there's some pot of cash they can commandeer for other purposes is due for a reality check.

While I cannot support the use of existing city revenues for this worthwhile project, my goal is to find a financial solution that is both fitting and fair.

Those same principles apply to our ongoing efforts to retain the Chargers, who of course opened the season last night with a come-from-behind victory.

First, however, we must thwart Sacramento's underhanded attempt to help a rich developer lure them to the City of Industry.

Over the next two weeks, we'll be working with our legislators to ensure that whatever legislation they pass promotes an increase in the number of NFL teams in California, but not at the expense of any other California city with an NFL team.

The Chargers are an important community asset I am determined to see remain here for years to come, but in a way that is above-board and does not require a taxpayer subsidy.

Opportunities to make sound and proven investments in the future don't come along every day.

And the people who don't recognize these opportunities -- or are scared off by any hint of dissension -- or are waiting for a consensus to develop among the bloggers -- often wake up one day to realize that their opportunity has passed them by.

Cleantech

For an example of how decisive and responsible action can benefit a regional economy, you need look no further than the effort that began three years ago, when San Diego started laying the groundwork to become a national center for clean technology.

We were the first of America's big cities to embrace Cleantech, an emerging sector that will be an integral part of our diverse economy for decades to come, attracting clean industry and providing green jobs.

By banking on San Diego's skilled workforce and entrepreneurialism, we followed a blueprint similar to the one that helped us become a recognized leader in biotechnology and telecommunications.

Today our clean tech sector has grown to encompass more than 100 companies in the city, and more than 250 in the county.

And as those industries grow and thrive, they will benefit from our CleanGeneration program to make energy efficiency and renewable energy affordable and bring solar installations to more homes.

This groundbreaking program, which increases demand for cleantech products as it reduces greenhouse gases, begins next spring.

At the time CleanTech San Diego was formed, the economy was booming and real estate prices were still marching skyward.

It would have been easy to remain complacent.

Yet while other cities relished the good times, San Diego took the initiative.

Like the people who envisioned Mission Bay or spearheaded the resurgence of downtown, the leaders of CleanTech San Diego didn't claim to know the future.

But they knew you couldn't run away from it.

And they knew that if you had a vision and did your homework, you could see enough of the future to lay the right groundwork and make it work for you.

San Diegans have embraced this approach in their own lives by modifying their homes, yards and lifestyles in anticipation of the water restrictions forced on us by a statewide water emergency.

I am confident they will be equally prepared for the additional restrictions expected in a few months, when our outdoor water use must adjust to the cooler weather.

Conclusion

Finally, I'd like to add a personal word.

It is an honor and privilege to serve my city in this hour.

And to remind you that I intend to work on my reform agenda until my final hour in office.

This summer, I hiked into the Grand Canyon, and it gave me a little perspective on being mayor.

In both endeavors, the getting in is a lot easier than the climb out.

But I'm good with that.

I'm not afraid of the hard work, and I've made tough decisions all my life.

Yet our City's problems are your problems as much as they are mine.

And no solutions are possible unless we all work together, just as our progress in the last year was the result of a shared commitment and cooperation with our City Council.

We should never underestimate our City Council.

Yes, they get a little cranky at times.

But they showed courage last summer in making difficult budget decisions.

They'll have that same opportunity next year when, I assure you, the decisions are only going to be harder.

So I appreciate their willingness to put the City's long-term interests ahead of their overnight approval ratings.

We also should never underestimate the ability of San Diegans to respond to a crisis, or to rise to an occasion.

We've seen their resolve this year, as they conserve water at a pace that exceeds everyone's expectations, and we saw it during the 2007 wildfires, when thousands of volunteers quietly turned out to help their neighbors and protect their communities, seeking nothing in return.

Those public-spirited citizens, not the voices of negativity and inertia, are the true representatives of San Diego.

This economic downturn will pass soon enough, and we cannot let it define this time in our City's history.

Working together, we can, and we will, ensure that this time is remembered for the strength and wisdom we gained from adversity, and by what we were able to accomplish in spite of it.

Thank you.